

THE BOND BUYER

THE DAILY NEWSPAPER OF PUBLIC FINANCE

Rating Reform Won't Hurt Triple-A States, Virginia's Wagner Says

Bond Buyer | Friday, June 27, 2008

By [Lynne Funk](#)

WASHINGTON - Virginia and other states with gilt-edged credit ratings probably will not be hurt if municipal and corporate bonds are all rated according to the likelihood of repayment, Jody M. Wagner, Virginia's secretary of finance, said in a recent interview.

Some market participants have worried that the long-standing triple-A ratings of states such as Virginia will be diluted if legislative and rating agency initiatives to put muni and corporate bond ratings on the same basis are adopted and result in more municipal issuers receiving such ratings.

But Wagner, whose state has been rated triple-A since the late 1930s, said she expects institutional investors "will not accept that all triple-As are equal."

"They're still going to be looking at the fundamentals that make a credit triple-A," she said in an interview in Richmond last week. "I think if they're all merged together so that a triple-A state like Virginia is rated the same as a double-A or an A state currently, then the analysts that work for the investment firms are going to have to look behind this."

Pressure to move the ratings to a single scale has been mounting since the subprime mortgage crisis led the rating agencies to downgrade muni bond insurers that had had exposure to that market. As the ratings of the bond insurers dropped, so did the ratings of muni bonds they had insured.

Soon state and federal officials, such as California Treasurer Bill Lockyer and House Financial Services Committee chairman Barney Frank, D-Mass., began arguing that if munis - which rarely default - had been rated on the same scale as corporate bonds, they would have had higher ratings and would not have needed the insurance.

Wagner, who became much more familiar with the rating process after she was appointed treasurer in 2002, said that retail investors may not be able to differentiate between a once double-A or single-A state whose rating would be boosted by a single rating scale.

"I think for individual investors, like mom and pop investors, they won't be able to differentiate and they may have to find different ways to get that information," Wagner said. "Or they may not. Most small investors buy bonds through bond funds and most wealthy investors buy them through people that are tracking the bonds, such as financial advisers."

Frank recently introduced legislation requiring the rating agencies to rate muni and corporate bonds solely on the likelihood of repayment. He introduced the bill after Moody's Investors Service altered its

plan of offering both muni and global scale ratings for municipal bonds and instead proposed aligning its municipal scale with its other global ratings. The agency's public comment period on the change ends Monday.

Along with Virginia, Moody's currently rates Delaware, Georgia, Maryland, Missouri, North Carolina, South Carolina, Utah, and Vermont Aaa.

And Wagner has played a key role in maintaining her state's gilt-edged rating since 1938, though it was in jeopardy for a brief time in 2004. Moody's placed the commonwealth on its watch list then because of projected revenue shortfalls, but the state's resurgent economy, a freeze on some popular tax cuts, and a readjustment of its tax code reestablished its position of financial stability, allowing it to keep the rating.

Moody's said at that time that the active fiscal management and conservative financial policies exhibited by the state and then-Treasurer Wagner should be viewed as a standard for the highest rating.

Before 2002, Wagner was more familiar with the less-stringent corporate ratings, when for almost 20 years, she practiced securities, corporate, and banking law in the Norfolk-based law firm of Kaufman & Canoles.

Wagner ran as a Democratic candidate for the U.S. House in 2000, representing the Norfolk region.

"I almost won," she said.

But Republican Edward L. Schrock took the majority of votes and the job. She stayed in politics and eventually met Mark R. Warner on the campaign trail. After he was elected governor, he asked her to become state treasurer.

"I had to ask a friend, is this some kind of fluff job?" Wagner said. After the colleague assured her it was serious, Wagner said she soon realized the work would be very demanding, and would involve a huge learning curve. She had to manage bond issues for public colleges, parks, and the Virginia Port Authority.

After her four years as treasurer, Wagner served as chairwoman of the Virginia Treasury Board, and served on the debt capacity advisory committee, the Virginia College Building Authority, the Virginia Public Building Authority, the Virginia Public School Authority, the Virginia Housing Development Authority, the Virginia Resources Authority, and the Virginia Small Business Authority.

Wagner did such a good job that Warner's successor, Gov. Timothy Kaine, appointed her in 2006 as secretary of finance, making her the state's first female chief financial officer, a position with broad authority over fiscal policy and debt issuance.

Under Virginia's system of governance, Kaine and Wagner are the main drivers of state fiscal policy. Wagner is responsible for agencies handling all the financial transactions of the state, including the tax collections, aid distribution to localities, and development of the governor's budget proposal.

Wagner serves on the governor's advisory council on revenue estimates, debt capacity advisory committee, and the Virginia Economic Development Partnership, among others groups.

And while generally many treasurers and financial secretaries come up through the state's political systems, in the state legislature holding a financial role on a committee or working in finance with another government agency, Wagner's nongovernmental background brought a fresh perspective to the position, according to Manju Ganeriwala, deputy secretary of finance.

Wagner is good at building relationships, seeing the "larger picture," and delegating duties so the work

gets done, said Ganeriwala, who had previously served as deputy director for finance and administration in the state's Department of Medical Assistance Services and has served in state government for 20 years.

"She's very effective. She says, 'Here's the problem, let's come up with a solution,' " Ganeriwala said. "She's grown so quickly in her job."

Now six years after she first became a state financial official, Wagner said she most enjoys crafting the biennial budget with the governor. The \$77 billion biennium budget for fiscal 2009-2010 was approved in late April.

Asked how much of a role politics plays in her position, Wagner said: "Politics doesn't get in the way of me doing my job, but politics gets in the way of what could sometimes be reasonable business decisions that aren't necessarily made because of politics."

As an example, she cited the current debate about transportation infrastructure needs, which has resulted in so much fighting between Republicans and Democrats that they have been unable to agree on legislation that the state greatly needs to reduce congestion and pay for new projects.

"I think most reasonable businessmen would say, you have to invest in your infrastructure," she said. Wagner had been touting Kaine's transportation bill, which the House Rules Committee killed yesterday.

Wagner, who also served as president of the National Association of State Treasurers until 2006 when she became secretary of finance, obtained her law degree from Vanderbilt University School of Law and her bachelor's degree in economics from Northwestern University.

She was born in Canton, Ohio, and is married to Alan L. Wagner, an eye surgeon. They have four children: Rachael, Jason, Elizabeth, and Maxwell.

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